Maluti-A-Phofung Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the Local Government Municipal Demarcation Act,1998.

Mayoral committee

Executive Mayor	Tshabalala VW
Chief Whip	Thebe TR
	Gamede EN Khoarai MI Lebesa MJ Mboso LA Mkhwanazi TI Mokoena JM Mokubung ML Mosia MM Mositi MC Nhlapo MA Tsotetsi MJ

General Information

Councillors

Speaker	Ntedi AM
	Beukes PB
	Crockett M
	Hlatshwayo TF
	Khambule MA
	Khoapha NA
	Komako AM
	Lebesa MB
	Lebesana PJ
	Letaoane TT
	Letooane SG
	Mahamuza LP
	Mahlambi TJ
	Mahlatsi A
	Majake MI
	Malinga DN
	Matjele MP
	Mavuso TM
	Mazibuko MR
	Mhlambi MA
	Mofokeng BD
	Mofokeng K
	Mofokeng MA
	Mohlekwa TR
	Mohoaladi ME
	Mojakisane NS
	Mokoena DJ
	Mokoena JM
	Mokoena LE
	Mokotso GT
	Mokubung ML
	Molaba TE
	Moloi L
	Moloi TD
	Mopeli MS
	Mopeli N
	Moseme LA
	Mosikidi MF
	Mosikidi TJ
	Motaung ME
	Motaung PM
	Motaung SJ
	Motloung MM
	Mpakathe MP
	Ndlovu VM
	Nhlapo DJ
	Ramochela A
	Ramohloki NI
	Rantsane J
	Salamu MS
	Sefatsa DE
	Semela DG
	Seobi MJ
	Sephula PE
	Shabalala M
	Taaso MB
	Tamane MJ
	Thakhuli ND
	Tolofi ME
Grading of local authority	Grade 4

General Information

Capacity of local authority	High capacity
Municipal demarcation code	FS194
Accounting Officer	Adv. Tsupa MR
Chief Finance Officer (CFO)	Mofokeng MA
Bankers	First National Bank Ltd Standard Bank of South Africa
Auditors	Auditor-General of South Africa (Free State)
Attorneys	Balden and Vogel Partners Majavu Incorporated Majola Attorney’s Ponoane Attorneys, Notories and Conveyancers Moroka Attorney's Sunil Narian Incorporated Uys Mathebula Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report.

The annual financial statements set out on pages 7 to 95, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Adv. MR Tsupa
Accounting officer

31 August 2016

Audit Committee Report

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the local government: Municipal Demarcation Act, 1998 and operates in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 779 027 250 (2015: deficit R 227 403 499).

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 1 809 052 179 and that the municipality's total assets exceed its liabilities by R 1 809 052 179.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The municipality is still exploring alternative options to improve its financial position. Although certain financial ratios may appear unfavourable, the municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, 2017.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to obtain funding for the ongoing operations for the municipality. Government did not announce that it intends to cease funding to Maluti-a-Phofung local municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the Generally Recognised Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name
Adv. MR Tsupa

6. Interest in controlled entities

Name of controlled entity	Shareholding ratio %
Maluti-a-Phofung Water SOC Ltd	100

Details of the municipality's investment in controlled entity are set out in note 13.

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current Assets			
Inventories	3	2 133 036	2 277 363
Receivables from exchange transactions	4	8 051 199	6 861 562
Receivables from non-exchange transactions	5	74 387 821	177 071 362
VAT receivable	6	134 327 577	43 682 019
Consumer debtors	7	291 635 025	461 041 191
Cash and cash equivalents	8	28 379 801	6 728 773
Short term portion of long term receivable	15	728 516	1 213 652
		539 642 975	**698 875 922**
Non-Current Assets			
Investment property	9	42 163 277	42 163 277
Property, plant and equipment	10	2 992 224 731	2 994 723 145
Intangible assets	11	1 478	1 478
Heritage assets	12	4	4
Investments in controlled entities	13	300	300
Other financial assets	14	454 620	430 105
Long term receivable	15	1 224 218	361 409
		3 036 068 628	**3 037 679 718**
Total Assets		**3 575 711 603**	**3 736 555 640**
Liabilities			
Current Liabilities			
Other financial liabilities	16	2 750 272	3 617 406
Payables from exchange transactions	17	1 670 054 712	1 052 227 617
Consumer deposits	18	11 732 472	11 721 031
Unspent conditional grants and receipts	19	2 854 334	1 786 608
Employee benefit obligation	21	2 386 000	4 227 000
		1 689 777 790	**1 073 579 662**
Non-Current Liabilities			
Other financial liabilities	16	7 123 250	9 077 081
Provisions	20	40 589 384	41 016 466
Employee benefit obligation	21	29 169 000	24 803 000
		76 881 634	**74 896 547**
Total Liabilities		**1 766 659 424**	**1 148 476 209**
Net Assets		**1 809 052 179**	**2 588 079 431**
Accumulated surplus		1 809 052 179	2 588 079 431

* See Note 47

Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	24	385 515 169	542 390 174
Rental income	25	1 063 565	850 031
Recoveries		63 475	833 609
Other income	27	18 458 423	446 589 828
Interest received	28	26 961 587	17 530 461
Total revenue from exchange transactions		**432 062 219**	**1 008 194 103**
Revenue from non-exchange transactions			
Taxation revenue			
Fines		1 326 696	879 568
Property rates	29	200 839 504	120 001 428
Transfer revenue			
Government grants and subsidies	30	640 240 274	609 662 809
Total revenue from non-exchange transactions		**842 406 474**	**730 543 805**
Total revenue	23	**1 274 468 693**	**1 738 737 908**
Expenditure			
Employee related costs	31	(316 762 053)	(256 577 446)
Remuneration of councilors	32	(22 257 852)	(23 389 808)
Community project expenditure	33	(171 251 653)	(257 229 405)
Theft of cashier cash float		(350)	-
Depreciation and amortisation	34	-	(186 120 561)
Finance costs	35	(4 478 516)	(6 335 515)
Debt Impairment	36	(220 919 107)	162 696 232
Repairs and maintenance	37	(162 882 817)	(449 597 299)
Bulk purchases	38	(714 223 504)	(452 467 192)
Contracted services	39	(61 771 326)	(60 012 548)
Grants and subsidies paid	40	(95 000 000)	(100 222 159)
General expenses	41	(283 948 765)	(149 632 742)
Total expenditure		**(2 053 495 943)**	**(1 778 888 443)**
Operating deficit		**(779 027 250)**	**(40 150 535)**
Inventories losses/write-downs	57	-	(189 915 292)
Deficit for the year		**(779 027 250)**	**(230 065 827)**

* See Note 47

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2014	**2 818 145 258**	**2 818 145 258**
Changes in net assets		
Deficit for the year	(230 065 827)	(230 065 827)
Total changes	(230 065 827)	(230 065 827)
Restated* Balance at 01 July 2015	**2 588 079 429**	**2 588 079 429**
Changes in net assets		
Deficit for the year	(779 027 250)	(779 027 250)
Total changes	(779 027 250)	(779 027 250)
Balance at 30 June 2016	**1 809 052 179**	**1 809 052 179**

* See Note 47

Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Service charges		533 652 095	471 001 363
Grants		641 308 000	608 968 538
Interest income		26 961 587	17 530 461
Other receipts		123 595 700	274 975 814
		1 325 517 382	1 372 476 176
Payments			
Employee costs		(336 494 905)	(281 549 253)
Suppliers		(959 694 294)	(1 039 349 393)
Finance costs		(4 478 516)	(6 335 515)
		(1 300 667 715)	(1 327 234 161)
Net cash flows from operating activities	43	**24 849 667**	**45 242 015**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	-	(1 688 163)
Proceeds from sale of property, plant and equipment	10	-	2 350 412
Proceeds from sale of financial assets		(24 515)	206 134
Purchase of long term receivable		(377 673)	-
Proceeds from sale of long term receivable		-	8 236 185
Net cash flows from investing activities		**(402 188)**	**9 104 568**
Cash flows from financing activities			
Repayment of other financial liabilities		(2 820 965)	(3 940 704)
Finance lease payments		-	(398 987)
Net cash flows from financing activities		**(2 820 965)**	**(4 339 691)**
Net increase/(decrease) in cash and cash equivalents		**21 626 514**	**50 006 892**
Cash and cash equivalents at the beginning of the year		6 728 773	(43 869 959)
Cash and cash equivalents at the end of the year	8	**28 355 287**	**6 136 933**

* See Note 47

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference to note
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	664 830 000	(67 230 000)	**597 600 000**	385 515 169	**(212 084 831)**	58
Rental income	1 419 450	(74 450)	**1 345 000**	1 063 565	**(281 435)**	58
Recoveries	475 636 689	(475 636 689)	**-**	63 475	**63 475**	58
Other income	18 342 500	15 946 092	**34 288 592**	18 458 423	**(15 830 169)**	58
Interest received	22 500 000	7 400 000	**29 900 000**	26 961 587	**(2 938 413)**	58
Total revenue from exchange transactions	**1 182 728 639**	**(519 595 047)**	**663 133 592**	**432 062 219**	**(231 071 373)**	
Revenue from non-exchange transactions						
Taxation revenue						
Traffic fines	20 000 000	(18 919 746)	**1 080 254**	1 326 696	**246 442**	58
Property rates	267 000 000	(4 587 490)	**262 412 510**	200 839 504	**(61 573 006)**	58
Transfer revenue						
Government grants & subsidies	758 909 000	(11 390 000)	**747 519 000**	640 240 274	**(107 278 726)**	58
Total revenue from non-exchange transactions	**1 045 909 000**	**(34 897 236)**	**1 011 011 764**	**842 406 474**	**(168 605 290)**	
Total revenue	**2 228 637 639**	**(554 492 283)**	**1 674 145 356**	**1 274 468 693**	**(399 676 663)**	
Expenditure						
Personnel	(280 582 420)	(27 993 866)	**(308 576 286)**	(316 762 053)	**(8 185 767)**	58
Remuneration of councilors	(23 643 071)	925 379	**(22 717 692)**	(22 257 852)	**459 840**	58
Community project expenditure	145 800 000	(56 361 867)	**89 438 133**	186 197 275	**96 759 142**	58
Loss/Fraud payments	-	-	**-**	(350)	**(350)**	58
Depreciation and amortisation	(175 000 000)	105 000 000	**(70 000 000)**	(171 251 653)	**(101 251 653)**	
Finance costs	(6 000 000)	-	**(6 000 000)**	(4 478 516)	**1 521 484**	58
Bad debts written off	(50 000 000)	(52 877 061)	**(102 877 061)**	(220 919 107)	**(118 042 046)**	58
Repairs and maintenance	(100 544 646)	(24 765 354)	**(125 310 000)**	(162 882 817)	**(37 572 817)**	58
Bulk purchases	(620 000 000)	420 000 000	**(200 000 000)**	(714 223 504)	**(514 223 504)**	58
Contracted services	(78 700 000)	(38 625 000)	**(117 325 000)**	(61 771 326)	**55 553 674**	58
Grants and subsidies paid	(255 396 452)	70 396 452	**(185 000 000)**	(95 000 000)	**90 000 000**	58
General expenses	(188 106 050)	(69 020 134)	**(257 126 184)**	(470 146 040)	**(213 019 856)**	58
Total expenditure	**(1 632 172 639)**	**326 678 549**	**(1 305 494 090)**	**(2 053 495 943)**	**(748 001 853)**	
Deficit before taxation	**596 465 000**	**(227 813 734)**	**368 651 266**	**(779 027 250)**	**(1 147 678 516)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**596 465 000**	**(227 813 734)**	**368 651 266**	**(779 027 250)**	**(1 147 678 516)**	

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2016											
Financial Performance											
Property rates	267 000 000	(4 587 490)	262 412 510	-		262 412 510	200 839 504		(61 573 006)	77 %	75 %
Service charges	664 830 000	(67 230 000)	597 600 000	-		597 600 000	385 515 169		(212 084 831)	65 %	58 %
Investment revenue	22 500 000	(5 100 000)	17 400 000	-		17 400 000	26 961 587		9 561 587	155 %	120 %
Transfers recognised - operational	454 044 000	106 210 000	560 254 000	-		560 254 000	454 043 000		(106 211 000)	81 %	100 %
Other own revenue	515 398 639	(466 184 793)	49 213 846	-		49 213 846	20 912 159		(28 301 687)	42 %	4 %
Total revenue (excluding capital transfers and contributions)	**1 923 772 639**	**(436 892 283)**	**1 486 880 356**	**-**		**1 486 880 356**	**1 088 271 419**		**(398 608 937)**	**73 %**	**57 %**
Employee costs	(280 582 420)	(27 993 866)	(308 576 286)	-	-	(308 576 286)	(316 762 053)	-	(8 185 767)	103 %	113 %
Remuneration of councillors	(23 643 071)	925 379	(22 717 692)	-	-	(22 717 692)	(22 257 852)	-	459 840	98 %	94 %
Debt impairment	(50 000 000)	(52 887 061)	(102 887 061)			(102 887 061)	(220 919 107)	-	(118 032 046)	215 %	442 %
Depreciation and asset impairment	(175 000 000)	105 000 000	(70 000 000)			(70 000 000)	-	-	70 000 000	- %	- %
Finance charges	(6 000 000)	-	(6 000 000)	-	-	(6 000 000)	(4 478 516)	-	1 521 484	75 %	75 %
Materials and bulk purchases	(620 000 000)	420 000 000	(200 000 000)	-	-	(200 000 000)	(714 223 504)	-	(514 223 504)	357 %	115 %
Grants and subsidies paid	(255 396 452)	70 396 452	(185 000 000)	-	-	(185 000 000)	(95 000 000)	-	90 000 000	51 %	37 %
Other expenditure	(367 350 696)	(132 410 488)	(499 761 184)	-	-	(499 761 184)	(679 854 911)	-	(180 093 727)	136 %	185 %
Total expenditure	**(1 777 972 639)**	**383 030 416**	**(1 394 942 223)**	**-**	**-**	**(1 394 942 223)**	**(2 053 495 943)**	**-**	**(658 553 720)**	**147 %**	**115 %**
Surplus/(Deficit)	**145 800 000**	**(53 861 867)**	**91 938 133**	**-**		**91 938 133**	**(965 224 524)**		**(1 057 162 657)**	**(1 050)%**	**(662)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	450 665 000	(173 961 887)	276 703 113	-		276 703 113	186 197 274		(90 505 839)	67 %	41 %
Surplus (Deficit) after capital transfers and contributions	**596 465 000**	**(227 823 754)**	**368 641 246**	**-**		**368 641 246**	**(779 027 250)**		**(1 147 668 496)**	**(211)%**	**(131)%**
Surplus/(Deficit) for the year	**596 465 000**	**(227 823 754)**	**368 641 246**	**-**		**368 641 246**	**(779 027 250)**		**(1 147 668 496)**	**(211)%**	**(131)%**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Consolidation

Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entities, including special purpose entities, which are controlled by the controlling entity.

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The revenue and expenses of a controlled entity are included in the consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity’s annual financial statements at the acquisition date.

The annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated annual financial statements are prepared as of the same date.

When the end of the reporting dates of the controlling entity is different from that of a controlled entity, the controlled entity prepares, for consolidation purposes, additional annual financial statements as of the same date as the annual financial statements of the controlling entity unless it is impracticable to do so. When the annual financial statements of a controlled entity used in the preparation of consolidated annual financial statements are prepared as of a date different from that of the controlling entity, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the controlling entity’s annual financial statements. In any case, the difference between the end of the reporting date of the controlled entity and that of the controlling entity is no more than three months. The length of the reporting periods and any difference between the ends of the reporting dates are the same from period to period.

Adjustments are made when necessary to the annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Non-controlling interest in the net assets of the municipality is identified and recognised separately from the controlling entity's interest therein, and is recognised within net assets.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from receivable.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties or the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus/deficit.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

Post-retirement benefits

The present value of the post retirement obligation and other long-term employee obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 21.

Effective interest rate

The municipality used the incremental borrowing rate to discount future cash flows.

Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.4 Investment property (continued)

Cost model

Investment property is, subsequent to initial measurement, carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Land	indefinite
Building	5 - 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

1.5 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	5 - 30 years
Infrastructure	Straight line	3 - 100 years
Community	Straight line	25 - 30 years
Other assets	Straight line	2 - 20 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, changes in the measurement of an existing decommissioning, restoration and similar liability that result from change in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in discount rate, and the obligation the municipality incurs for having used the items during a particular period for purposes other than to produce inventories during that period.

1.6 Site restoration and dismantling cost (continued)

The related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it; or
- there is an ability to use or sell it; or
- it will generate probable future economic benefits or service potential; or
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and or
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Accounting Policies

1.7 Intangible assets (continued)

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	2 - 5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is the difference between the net disposal proceeds and the carrying amount and the intangible asset. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

Accounting Policies

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 12 Heritage assets.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Subsequent measurement

Heritage assets are carried at cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.9 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any cost directly attributable to the purchase of controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

1.10 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Long term receivables (current portion)	Financial asset measured at amortised cost
Long term receivables (non-current)	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.10 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.10 Financial instruments (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expired or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.11 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another municipality in cash or another financial asset.

The cost method is the method used to account for statutory receivable that require such receivable to be measured at their transaction amount, plus any accrued interest or other changes (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of the Standard of GRAP on Statutory Receivables) means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using GRAP 9 on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using GRAP 23 on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of either GRAP 9 or GRAP 23 listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is objective evidence that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

1.11 Statutory receivables (continued)

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation.
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable, or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable;
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

1.12 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

1.14 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.15 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

Accounting Policies

1.16 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

1.17 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of the municipality after deducting all of its liabilities.

1.18 Share based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or as the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received are measured, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly, are measured by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in surplus or deficit for the period.

If the share based payments granted do not vest until the counterparty completes a specified period of service, municipality accounts for those services as they are rendered by the counterparty during the vesting period, (or on a straight line basis over the vesting period).

If the share based payments vest immediately the services received are recognised in full.

For share-based payment transactions in which the terms of the arrangement provide either the municipality or the counterparty with the choice of whether the municipality settles the transaction in cash (or other assets) or by issuing equity instruments, the components of that transaction are recorded, as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

1.19 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Accounting Policies

1.19 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual payments are recognised as an operating lease asset or liability

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rent are expensed in the period in which they are incurred.

1.20 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered a service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one municipality, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned.

Accounting Policies

1.20 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered services to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the obligation.

1.20 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises, because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise of assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

1.20 Employee benefits (continued)

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality, attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, those changes were enacted before the reporting date; or past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.20 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.21 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Accounting Policies

1.21 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:
- possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingent assets and contingent liabilities are disclosed in note 45.

Accounting Policies

1.21 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, are accounted for as follows:

The related asset is measured using the cost model:
- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; or
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.22 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

1.22 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.23 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.23 Revenue from non-exchange transactions (continued)

Services in-kind

Services in-kind that are significant to the municipality's operations and/or service delivery objectives are recognised as assets and the related revenue when it is probable thet the future economic benefit or service potential will flow to the municipality and that the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.24 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.25 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

1.26 Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.27 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of resources.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.28 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 47 for detail.

1.29 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.30 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.31 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.32 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

1.33 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.34 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

1.34 Events after reporting date (continued)

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.35 Service concession arrangements: Entity as grantor

Identification

Service concession arrangement is a contractual arrangement between a grantor and an operator in which an operator uses the services concession asset to provide a mandated function on behalf of a grantor for a specified period, where the operator is compensated for its services over the period of service concession arrangement.

A grantor is the entity that grants the right to use the service concession asset to the operator.

A mandated function involves the delivery of a public service by an operator on behalf of a grantor that falls within the grantor's mandate.

An operator is the entity that uses the service concession asset to provide a mandated function subject to the grantor's control of the asset.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

- is provided by the operator which:
  - the operator constructs, develops, or acquires from a third party; or
  - is an existing asset of the operator; or
- is provided by the grantor which:
  - is an existing asset of the grantor; or
  - is an upgrade to an existing asset of the grantor.

Recognition of asset and liability

The entity recognises an asset provided by the operator and an upgrade to an existing asset of the entity, as a service concession asset if the entity controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price, and if the entity controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the asset at the end of the term of the arrangement. This applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset).

After initial recognition or reclassification, service concession assets are clearly identified from other assets within the same asset category, and are clearly identified from owned and/or leased assets.

Where the entity recognises a service concession asset, and the asset is not an existing asset of the entity (grantor), the entity (grantor) also recognises a liability.

The entity does not recognise a liability when an existing asset of the entity is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

Measurement of asset and liability

The entity initially measures the service concession asset as follows:

- Where the asset is not an existing asset of the entity, the asset is measured at its fair value.
- Where the asset is an existing asset of the entity and it meets the recognition criteria of a service concession asset, the asset is reclassified as a service concession asset, and the asset is accounted for in accordance with the policy on Investment property, Property, plant and equipment, Intangible assets, or Heritage assets, as appropriate.

Accounting Policies

1.35 Service concession arrangements: Entity as grantor (continued)

The entity initially measures the liability at the same amount as the service concession asset, adjusted by the amount of any other consideration from the entity to the operator, or from the operator to the entity.

Financial liability model

Where the entity has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the entity accounts for the liability as a financial liability.

The entity allocates the payments to the operator and accounts for them according to their substance as a reduction in the liability recognised, a finance charge, and charges for services provided by the operator.

The finance charge and charges for services provided by the operator in a service concession arrangement are accounted for as expenses.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the entity to the operator are allocated by reference to the relative fair values of the service concession asset and the services.

Where the asset and service components are not separately identifiable, the service component of payments from the entity to the operator is determined using estimation techniques.

Grant of a right to the operator model

Where the entity does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the entity accounts for the liability as the unearned portion of the revenue arising from the exchange of assets between the entity and the operator.

The entity recognises revenue and reduces the liability according to the substance of the service concession arrangement.

Dividing the arrangement

If the entity pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it accounts separately for each part of the total liability.

Other liabilities, contingent liabilities and contingent assets

The entity accounts for other liabilities, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with the policy on Provisions, Contingent liabilities and contingent assets and Financial instruments.

Other revenues

The entity accounts for revenues from a service concession arrangement, other than those relating to the grant of a right to the operator model, in accordance with the Standard of GRAP on Revenue from exchange transactions.

Recognition of the performance obligation and the right to receive a significant interest in a service concession asset

If the entity controls a significant residual interest in a service concession asset at the end of the service concession arrangement through ownership, beneficial entitlement or otherwise, and the arrangement does not constitute a finance or an operating lease, the entity recognises its right to receive the residual interest (i.e. a receivable) in the service concession asset at the commencement of the arrangement.

The right to receive a residual interest in the service concession asset to be received at the end of the arrangement, is an exchange consideration. This is because the entity will receive an asset in exchange for granting the operator access to the asset while providing a mandated function on its behalf in accordance with the substance of the arrangement.

Accounting Policies

1.35 Service concession arrangements: Entity as grantor (continued)

In terms of the policy on Revenue from exchange transactions, the exchange consideration are recognised and measured at fair value. The value of the receivable (the right to the residual interest in the asset), receivable at the end of the service concession arrangement, reflects the value of the service concession asset as if it were already in the age and in the condition expected at the end of the service concession arrangement.

When the entity recognises the right to receive a residual interest in the service concession asset, it also recognises its performance obligation for granting the operator access to the service concession asset in accordance with the substance of the arrangement. The value of the performance obligation is the same as the receivable interest recognised at the commencement of the service concession arrangement.

The performance obligation is reduced and revenue is recognised based on the substance of the arrangement.

Where service concession arrangements include provisions to adjust the arrangement for changes, the effect of such changes is deemed to have taken place at the inception of the service concession arrangements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 21 (as amended 2015): Impairment of Non-cash-generating Assets

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets, and consequential amendments made to the definition of cash-generating assets;
- the indicators of internal sources of information were amended to include obsolescence as an indication that an asset may be impaired. In line with the amendments made to IPSAS 21 on Impairment of Non-cash-generating Assets (IPSAS 21) in 2011, an amendment has been made to include another indicator of impairment i.e., where an asset’s useful life has been reassessed as finite rather than indefinite;
- where the recoverable service amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples of indications of impairment and measurement of impairment losses have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

GRAP 26 (as amended 2015): Impairment of Cash-generating Assets

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets and cash generating unit;
- in line with the amendments made to IPSAS 26 on Impairment of Cash-generating Assets (IPSAS 26) in 2010, an amendment has been made to include another indicator of impairment in relation to the internal sources of information;
- where the recoverable amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples on using present value techniques to measure value in use and illustrative guidance have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

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2. New standards and interpretations (continued)

Improvements to the Standards of GRAP (2013)

Amendments were made to the following standards of GRAP:
- GRAP 1 - Presentation of Financial Statements;
- GRAP 2 - Cash Flow Statements;
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors;
- GRAP 7 - Investments in Associates;
- GRAP 10 - Financial Reporting in Hyperinflationary Economies;
- GRAP 11 - Construction Contracts;
- GRAP 13 - Leases;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21 - Impairment of Non-cash-generating Assets (refer to separate note);
- GRAP 24 - Presentation of Budget Information in Financial Statements;
- GRAP 25 - Employee Benefits;
- GRAP 26 - Impairment of Cash-generating Assets (refer to separate note);
- GRAP 31 - Intangible Assets;
- GRAP 103 - Heritage Assets; and
- GRAP 104 - Financial Instruments.

The amendments relate mainly to editorial and other changes to the original text to ensure consistency with other Standards of GRAP and deletion of the appendices with illustrative guidance and examples from the standards, as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the improvements is for years beginning on or after 01 April 2015.

The municipality has adopted the improvements for the first time in the 2016 annual financial statements.

The impact of the improvements is not material.

GRAP 23 (as amended 2015): Revenue From Non-exchange Transactions

The following amendments were made to the standard:
- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- the scope paragraph has been amended to exclude non-exchange revenue from construction contracts from this Standard;
- commentary has been added to clarify that discounts, volume rebates or other reductions in the quoted price of assets are exchange transactions that should be treated in accordance with the Standard of GRAP on Revenue from Exchange Transactions;
- the Standard was amended to make it mandatory for entities to recognise services in-kind to the extent that the services in-kind are significant to an municipality's operations and/or service delivery objectives and to the extent that the recognition criteria have been met;
- commentary has been added to clarify that services in-kind are not limited to the provision of services by individuals but also include the right to use assets. Examples have been added to illustrate this amendment; and
- the appendix with illustrative examples has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

2. New standards and interpretations (continued)

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

This Standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more presentation and disclosure than is currently provided in the annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting municipality's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting municipality) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting municipality in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting municipality and its ability to deliver agreed services, including assessments of the risks and opportunities facing the municipality. This disclosure also ensures that the reporting municipality is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

Public-Private Partnership (PPP) agreements that are governed and regulated in terms of the MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables, because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board, but its effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets its effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended in 2015): Investment Property

Amendments made to the standard are:

2. New standards and interpretations (continued)

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- the encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements is now required.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended in 2015): Property, Plant and Equipment

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- the encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by the municipality to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when the municipality is a principal or an agent.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

3. Inventories

Consumable stores	2 133 036	2 277 363

Reclassification of RDP land from inventory to donations.

Notes to the Annual Financial Statements

	2016 R	2015 R

4. Receivables from exchange transactions

Deposits	1 629 147	2 676 860
TATS Electrical services	3 434 647	3 434 647
Other receivables	2 987 405	750 055
	8 051 199	**6 861 562**

Trade and other receivables pledged as security

None of the trade and other receivables were pledged as security.

Credit quality of other receivables from exchange transactions

Other receivable from exchange transactions were neither past due nor impaired.

None of the financial assets that are fully performing have been renegotiated in the last year.

5. Receivables from non-exchange transactions

Government grants and subsidies	-	106 210 000
Property rates	74 353 452	70 826 993
Sundry deposits	34 369	34 369
	74 387 821	**177 071 362**

Receivables from non-exchange transactions pledged as security

None of the trade and other receivables were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions were neither past nor due nor due nor impaired.

Receivables from non-exchange transactions

Rates		
Gross balance	220 791 376	197 598 530
Less: Allowance for impairment	(145 886 369)	(126 771 537)
	74 905 007	**70 826 993**

Ageing of rates		
Current	10 592 455	100 497
0-30 days	7 377 603	48 036 122
31-60 days	6 442 403	22 690 374
>90 days	50 492 546	-
	74 905 007	**70 826 993**

None of the financial assets that are fully performing have been renegotiated in the last year.

Reconciliation of allowance for impairment

Opening balance	(126 771 537)	(213 968 988)
Other receivables from non-exchange transactions	(19 114 832)	87 197 451
Total impairment	(145 886 369)	(126 771 537)

	2016 R	2015 R

5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

The ageing of amounts past due but not impaired is as follows:

	2016	2015
1 month past due	179 700 058	100 497
2 months past due	-	48 036 122
>3 months past due	-	22 690 374

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 145 886 369 (2015: R 126 771 537) were impaired and provided for.

6. VAT receivable

	2016	2015
VAT	134 327 577	43 682 019

The municipality is registered for VAT on the payment basis.

7. Consumer debtors

	2016	2015
Gross balances		
Electricity	254 274 188	279 391 852
Water	256 835 468	260 078 004
Sewerage	101 788 660	104 139 989
Refuse	109 484 128	108 959 019
Sundry receivable	114 581 543	130 779 554
	836 963 987	**883 348 418**
Less: Allowance for impairment		
Electricity	(64 402 225)	(62 468 419)
Water	(230 061 373)	(174 492 015)
Sewerage	(92 848 746)	(69 068 591)
Refuse	(100 928 623)	(73 746 612)
Sundry receivable	(57 087 995)	(42 531 590)
	(545 328 962)	**(422 307 227)**
Net balance		
Electricity	189 871 963	216 923 433
Water	26 774 095	85 585 989
Sewerage	8 939 914	35 071 398
Refuse	8 555 505	35 212 407
Sundry receivable	57 493 548	88 247 964
	291 635 025	**461 041 191**
Electricity		
Current	20 391 800	2 215 238
0 -30 days	4 001 201	26 309 027
31 - 60 days	4 577 307	10 322 831
91 - 120 days	160 901 655	178 076 337
	189 871 963	**216 923 433**

Notes to the Annual Financial Statements

	2016 R	2015 R
7. Consumer debtors (continued)		
Water		
Current	7 392 791	26 980
0 -30 days	4 464 647	10 020 319
31 - 60 days	4 715 081	9 177 889
91 - 120 days	10 201 576	66 360 801
	26 774 095	**85 585 989**
Sewerage		
Current	2 645 233	14 297
0 -30 days	2 068 167	2 869 927
31 - 60 days	1 873 521	2 565 107
91 - 120 days	2 352 993	29 622 067
	8 939 914	**35 071 398**
Refuse		
Current (0 -30 days)	2 553 195	10 364
31 - 60 days	2 005 706	2 328 734
61 - 90 days	1 931 665	2 140 145
91 - 120 days	2 064 939	30 733 164
	8 555 505	**35 212 407**
Sundry debtors		
Current (0 -30 days)	302 213	8 252
31 - 60 days	134 433	162 809
61 - 90 days	170 071	159 411
91 - 120 days	56 886 831	87 917 492
	57 493 548	**88 247 964**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(422 307 227)	(350 576 972)
Contributions to allowance	(123 021 735)	(71 730 255)
	(545 328 962)	**(422 307 227)**

Credit quality of consumer debtors

During the year no consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the last year.

Consumer debtors past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	-	-

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

	2016 R	2015 R

8. Cash and cash equivalents (continued)

	2016 R	2015 R
Cash on hand	2 772	2 103
Bank balance (Main)	23 269 786	4 383 237
Short-term deposits	1 885 639	1 681 139
Bank balance (Electricity)	3 221 604	662 294
	28 379 801	**6 728 773**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank - current	2 841 207	3 360 212	5 350 504	20 792 768	4 383 237	(47 770 029)
First National Bank - savings	3 221 604	662 302	1 905 042	3 221 604	662 294	2 210 373
Standard bank - short term deposit	1 896 539	1 681 139	1 684 162	1 885 639	1 681 139	1 684 162
Petty cash	472	53	3 485	472	53	3 485
Cash float	2 300	2 050	2 050	2 300	2 050	2 050
Total	**7 962 122**	**5 705 756**	**8 945 243**	**25 902 783**	**6 728 773**	**(43 869 959)**

9. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	42 163 277	-	42 163 277	45 729 533	(3 566 256)	42 163 277

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	42 163 277	42 163 277

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	42 519 902	(356 625)	42 163 277

Pledged as security

None of the above investment property have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

	2016	2015
	R	R

10. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	122 336 505	-	122 336 505	166 665 945	(44 329 440)	122 336 505
Community	309 436 322	-	309 436 322	405 509 917	(96 073 595)	309 436 322
Infrastructure	1 361 484 282	-	1 361 484 282	3 571 456 234	(2 209 971 952)	1 361 484 282
Land	487 941 829	-	487 941 829	490 440 243	-	490 440 243
Other assets	1 914 456 821	(1 886 377 572)	28 079 249	7 429 708 367	(7 401 629 118)	28 079 249
Work in progress	682 946 544	-	682 946 544	682 946 544	-	682 946 544
Total	**4 878 602 303**	**(1 886 377 572)**	**2 992 224 731**	**12 746 727 250**	**(9 752 004 105)**	**2 994 723 145**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Other changes, movements	Total
Buildings	122 336 505	-	122 336 505
Community	309 436 322	-	309 436 322
Infrastructure	1 361 484 282	-	1 361 484 282
Land	490 440 243	(2 498 414)	487 941 829
Other assets	28 079 249	-	28 079 249
Work in progress	682 946 544	-	682 946 544
	2 994 723 145	**(2 498 414)**	**2 992 224 731**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Buildings	122 799 466	-	-	-	(462 961)	122 336 505
Community	310 369 080	-	-	-	(932 758)	309 436 322
Infrastructure	1 544 775 817	-	-	-	(183 291 535)	1 361 484 282
Land	491 107 697	-	(2 350 412)	1 682 958	-	490 440 243
Other assets	27 467 769	1 688 163	-	-	(1 076 683)	28 079 249
Work in progress	682 946 544	-	-	-	-	682 946 544
	3 179 466 373	**1 688 163**	**(2 350 412)**	**1 682 958**	**(185 763 937)**	**2 994 723 145**

Pledged as security

None of the above property, plant and equipment have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

	2016	2015
	R	R

11. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 478	-	1 478	964 039	(962 561)	1 478

Reconciliation of intangible assets - 2016

	Opening balance	Total
Computer software	1 478	1 478

Reconciliation of intangible assets - 2015

	Opening balance	Total
Computer software	1 478	1 478

Pledged as security

None of the above intangible assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

12. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral ornaments, paintings and art galleries	4	-	4	4	-	4

Reconciliation of heritage assets 2016

	Opening balance	Total
Mayoral ornaments, paintings and art galaries	4	4

Reconciliation of heritage assets 2015

	Opening balance	Total
Mayoral ornaments, paintings and art galaries	4	4

	2016 R	2015 R

12. Heritage assets (continued)

Pledged as security

None of the above heritage assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

13. Investments in controlled entities

Name of company	Held by	% holding 2016	% holding 2015	Carrying amount 2016	Carrying amount 2015
Maluti-a-Phofung Water (SOC) Ltd	Maluti-a-Phofung Local Municipality	100,00 %	100,00 %	300	300

The carrying amounts of controlled entities are shown net of impairment losses.

14. Other financial assets

	2016 R	2015 R
Fair value		
Sanlam shares	35 769	36 593
Sanlam life policy	418 851	393 512
Impairments	-	-
	454 620	**430 105**
Non-current assets		
Fair value	454 620	430 105

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

	2016 R	2015 R
Level 1		
Listed shares	35 769	36 593
Level 2		
Sanlam life policy	418 851	393 512
	454 620	**430 105**

Notes to the Annual Financial Statements

	2016 R	2015 R

15. Long term receivable

Non- current portion of long term receivables	1 224 218	361 409
Current portion of long term receivables	728 516	1 213 652
	1 952 734	**1 575 061**

16. Other financial liabilities

At amortised cost		
Annuity loans All annuity loans are from the Development Bank of South Africa and repayments are made on a six monthly basis.	9 873 522	12 694 487

The average interest rate amounts to 12% per annum and the last loan is redeemable at 31 December 2021.

The municipality did not default on any principal or interest repayments during the period for loans repayable. No terms were renegotiated before the financial statements were authorized for issue.

Non-current liabilities		
At amortised cost	7 123 250	9 077 081
Current liabilities		
At amortised cost	2 750 272	3 617 406

17. Payables from exchange transactions

Maluti-a-Phofung Water payable	90 786 642	87 270 397
Accrued leave pay	27 225 722	23 264 919
Accrued bonus	6 811 522	6 238 919
Deposits received	12 819	81 563
Trade payables	1 500 074 787	888 042 602
Payments received in advance	45 143 220	47 329 217
	1 670 054 712	**1 052 227 617**

18. Consumer deposits

Electricity and water	11 732 472	11 721 031

No interest accrues on the balance of the consumer deposits held by the municipality.

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal infrastructural grant	-	1 786 608
Integrated national electrification programme grant	2 854 334	-
	2 854 334	**1 786 608**

	2016 R	2015 R

19. Unspent conditional grants and receipts (continued)

Movement during the year

	2016 R	2015 R
Balance at the beginning of the year	1 786 608	2 480 879
Grants received during the year	189 870 000	217 063 828
Income recognised (conditions met)	(188 802 274)	(217 758 099)
	2 854 334	**1 786 608**

See note 30 for reconciliation of grants from National/Provincial Government.

20. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Unwinding of interest	Total
Environmental rehabilitation	41 016 466	(2 498 414)	2 071 332	40 589 384

Reconciliation of provisions - 2015

	Opening Balance	Additions	Unwinding of interest	Total
Environmental rehabilitation	36 671 181	1 682 958	2 662 327	41 016 466

The rehabilitation cost provision is for the rehabilitation programme of the landfill sites of the municipality. It is required from the municipality to execute an environmental management program to restore the landfill site after its useful life. The sites under construction are Harrismith and Phuthaditjhaba. Both landfill sites accept only general waste.

The Harrismith Landfill has been permitted for operation in terms Section 20 of the Environment Conservation Act, 1989 (ECA) and the QwaQwa Landfill has been licensed for closure and rehabilitation in terms of the National Environmental Management: Waste Act, 2008 (NEMWA).

In order to determine the rehabilitation costs of each site the minimum requirements issued by the Department of Water Affairs (DWA) was used as guideline for the design of the capping layer as well as the capacity of the storm water drainage system. If a site is permitted/licensed, the relevant rehabilitation requirements are obtained from the above documentation according to the site's classification or as required in each permit. If a site is unpermitted / unlicensed, the classification is assumed according to the volume of waste received per day at the site, the type of waste received and the climatic region in which the site is located, i.e. the factors that determine the classification of the licensed site.

The actual costs are determined by calculating the volumes of excavations, materials required and legal requirements according to the footprint of each individual site. For a new estimate the rates used for each item of work is based on current rates for similar activities. If a previous estimate was done for a specific site then the previous year's figures are escalated using CPI. The individual rates are then again cross-checked to determine if they are still in line with current rates for similar activities and adjusted accordingly.

Provision has been made for this cost based on the estimated present value of future cash flows arising from the rehabilitation cost expected as at 30 June 2018 for the Phuthaditjhaba andfill site and 30 June 2024 for the Harrismith landfill site.

	2016 R	2015 R

21. Employee benefit obligations

Defined benefit plan

The plan is a final salary pension / flat plan or a post-employment medical benefit plan.

Employee benefit obligation

According to the rules of the long service awards scheme, which the municipality instituted and operates, an employee (who is on the current conditions service), is entitled to a cash allowance calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The liability was calculated by ZAQ consultants and actuaries.

Actuarial valuation on post-employment medical aid benefit was performed by ZAQ consultants and actuaries. The valuation considerred all in service employees, retired employees and their dependants who participate in the medical aid arrangements and are entitled to a post-employment medical aid subsidy.

It is management's best estimate that the current portion of the liability is the contributions expected to be paid on the plans for the following annual financial period.

The amounts recognised in the statement of financial position are as follows:

	2016 R	2015 R
Carrying value		
Present value of long service liability	(19 306 000)	(17 135 000)
Present value of post-employment medical aid liability	(12 249 000)	(11 895 000)
	(31 555 000)	**(29 030 000)**
Non-current liabilities	(29 169 000)	(24 803 000)
Current liabilities	(2 386 000)	(4 227 000)
	(31 555 000)	**(29 030 000)**

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

Changes in the present value of the employee benefit obligation are as follows:

	2016 R	2015 R
Long service liability		
Opening balance	17 135 000	18 322 000
Benefits paid	(846 332)	(1 052 000)
Net expense recognised in the statement of financial performance	3 017 332	(135 000)
	19 306 000	**17 135 000**

Net expense of long service liability recognised in the statement of financial performance

	2016 R	2015 R
Current service cost	2 133 000	2 669 000
Interest cost	1 618 000	1 482 000
Actuarial (gains)	(733 668)	(4 286 000)
	3 017 332	**(135 000)**

Changes in the present value of the post-retirement medical aid benefit are as follows:

	2016 R	2015 R
Opening balance	11 895 000	12 290 000
Benefits paid	(707 104)	(672 000)
Net expenses recognised in the statement of financial performance	1 061 104	277 000
	12 249 000	**11 895 000**

Notes to the Annual Financial Statements

	2016 R	2015 R

21. Employee benefit obligations (continued)

Net expense of the post-retirement medical aid benefit recognised in the statement of financial performance

Current service cost	124 000	90 000
Interest cost	1 064 000	1 061 000
Actuarial (gain)	(126 896)	(874 000)
	1 061 104	**277 000**

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

Key assumptions used

Assumptions used at the reporting date for the post-employment medical aid liability and long service awards liability:

Discount rate	Yield curve
Consumer price inflation	Difference between
Normal salary increase rate	CPI + 1%
Medical aid contribution inflation	CPI + 1%
Net effective discount rate	Yield curve based
Salary increase rate	CPI +1%
Mortality	SA85-90
Average retirement age	63

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A twenty percentage point change in assumed healthcare cost trends rates would have the following effects:

	Twenty percentage point decrease	**Twenty percentage point increase**
Effect on the aggregate of the service cost	13 425 000	11 328 000
Effect on defined benefit obligation	1 299 000	1 090 000
Effect on the aggregate of the interest cost	78 000	64 000

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Post-employment medical aid benefit	12 249 000	11 895 000	12 290 000	11 181 000	9 344 000
Long service award	19 306 000	17 135 000	18 322 000	16 797 000	-
Plan assets	2 525 000	(1 582 000)	2 634 000	311 000	541 000

22. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	8 051 199	8 051 199

Notes to the Annual Financial Statements

	2016 R	2015 R

. **Financial instruments disclosure (continued)**

Receivables from non-exchange transactions	74 387 821	74 387 821
Consumer debtors	291 635 025	291 635 025
Cash and cash equivalents	28 379 801	28 379 801
	402 453 846	**402 453 846**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	1 670 054 712	1 670 054 712
Consumer deposits	11 732 472	11 732 472
	1 684 641 518	**1 684 641 518**

2015

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	6 861 562	6 861 562
Receivables from non-exchange transactions	177 071 362	177 071 362
Consumer debtors	461 041 191	461 041 191
Cash and cash equivalents	6 728 773	6 728 773
	651 702 888	**651 702 888**

Financial liabilities

	At amortised cost	Total
Consumer deposits	11 721 031	11 721 031
Payables from exchange transactions	1 052 227 617	1 052 227 617
	1 065 735 256	**1 065 735 256**

Notes to the Annual Financial Statements

23. Revenue

	2016 R	2015 R
Service charges	385 515 169	542 390 174
Rental of facilities and equipment	1 063 565	850 031
Recoveries	63 475	833 609
Other income	18 458 423	446 589 828
Interest received - investment	26 961 587	17 530 461
Traffic fines	1 326 696	879 568
Property rates	200 839 504	120 001 428
Government grants & subsidies	640 240 274	609 662 809
	1 274 468 693	**1 738 737 908**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	385 515 169	542 390 174
Rental of facilities and equipment	1 063 565	850 031
Recoveries	63 475	833 609
Other income	18 458 423	446 589 828
Interest received - investment	26 961 587	17 530 461
	432 062 219	**1 008 194 103**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Traffic fines	1 326 696	879 568
Property rates	200 839 504	120 001 428
Transfer revenue		
Government grants & subsidies	640 240 274	609 662 809
	842 406 474	**730 543 805**

24. Service charges

Sale of electricity	263 456 485	399 999 137
Sale of water	54 428 591	83 472 133
Sewerage and sanitation charges	36 126 696	33 683 142
Refuse removal	31 503 397	25 235 762
	385 515 169	**542 390 174**

25. Rental income

Premises	567 375	662 353
Facilities	424 661	187 678
	992 036	**850 031**
	992 036	**850 031**

26. Other income

Recovery	63 475	833 609
Other income	18 458 423	446 589 828
	18 521 898	**447 423 437**

Notes to the Annual Financial Statements

	2016 R	2015 R

27. Other income

Accompanying vehicles	26 231	27 975
Advertising	206 237	123 912
Building plan fees	187 932	281 642
Call out fees	140 923	273 880
Cemetery fees	46 450	280 440
Clearance certificate	104 081	33 678
Commission received	26 997	116 822
Connection and reconnection fees	706 109	1 528 108
Conservancy services	593 692	17 099
Container rental	7 877	-
Creditors write-off	-	438 057 033
Encroachment fees	17 670	10 034
Entrance fees	-	71 913
Identification of pegs	13 465	-
Festival donations and sponsorship	2 013 188	1 521 099
Valuation objection	136 956	74 682
Insurance claims	8 631 611	-
Medical aid income	490 406	452 634
Other income (library fees, notice fees, licences and other income)	9 280	8 165
Photo copies	15 195	6 546
Sale of erven	12 985	1 885 461
Sale of tender documents	219 290	354 995
Searching fees	86 999	23 650
Storage fees	192 625	774 264
Sundry credits	4 565 149	353 967
Telephone income	-	6 185
Training income	7 075	305 644
	18 458 423	**446 589 828**

Creditor's write-off: The whole population of creditors on the data base contacted, and requested to bring the statements that reflect outstanding balance. After several attempts of not being able to obtain suppliers statement from them, a decision was taken to recognise the remaining balance as revenue.

28. Investment revenue

Interest revenue		
Interest earned on investments	2 035 720	759 055
Interest received - trading	24 925 867	16 771 406
	26 961 587	**17 530 461**

Notes to the Annual Financial Statements

	2016 R	2015 R

29. Property rates

Rates received

Residential	46 750 804	6 129 792
Commercial	57 976 414	29 317 913
National and provincial government	96 112 286	84 553 723
	200 839 504	**120 001 428**

Valuations

Residential	4 260 979 796	2 750 051 684
Commercial	3 880 941 801	3 283 987 981
National and provincial government	1 885 149 459	1 501 541 348
Municipal	2 303 692 366	335 320 686
	12 330 763 422	**7 870 901 699**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

	2016 R	2015 R

30. Government grants and subsidies

	2016 R	2015 R
Equitable share	451 438 000	392 155 000
Financial management grant	1 675 000	1 600 000
Municipal systems improvement grant	930 000	934 000
Operating grants		
Water service operating subsidy grant	-	8 500 000
	454 043 000	**403 189 000**
Capital grants		
Energy efficiency and demand side management grant	17 145 666	11 300 000
Extended public works programme incentive grant	5 718 000	4 866 000
Municipal infrastructural grant	158 833 608	154 260 392
Rural household infrastructure grant	4 500 000	4 499 100
Sterkfontein / Regional bulk infrastructural grant	-	31 548 317
	186 197 274	**206 473 809**
	640 240 274	**609 662 809**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

	2016 R	2015 R
Conditional grants received	186 197 275	206 473 809
Unconditional grants received	454 043 000	403 189 000
	640 240 275	**609 662 809**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 451 438 000 (2015: R 285 945 000), which is funded from the grant.

Financial management grant

	2016 R	2015 R
Current-year receipts	1 675 000	1 600 000
Conditions met - transferred to revenue	(1 675 000)	(1 600 000)
	-	**-**

Conditions were met during the year.

In terms of the Constitution, this grant is used to assist in support and implementation of financial management reforms, attendance at accredited training and capacity building programmes on financial management. .

Municipal system improvement grant

	2016 R	2015 R
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	**-**

Conditions were met during the year.

In terms of the Constitution, this grant is used to building the capacity of municipalities to implement sound institutional and governance systems required in terms of local government legislation.

Water services operating subsidy grant

	2016 R	2015 R

30. Government grants and subsidies (continued)

Current-year receipts	-	8 500 000
Conditions met - transferred to revenue	-	(8 500 000)
	-	-

Conditions were met during the year.

In terms of the Constitution, this grant is used to subsidise and build capacity in water schemes owned and/or operated by the Department of Water Affairs or by other agencies on behalf of the department.

Extended public works programme incentive

Current-year receipts	5 718 000	4 866 000
Conditions met - transferred to revenue	(5 718 000)	(4 866 000)
	-	-

Conditions were met during the year.

In terms of the Constitution, this grant is used to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

Sterkfontein / Regional bulk infrastructural grant

Current-year receipts	-	31 548 317
Conditions met - transferred to revenue	-	(31 548 317)
	-	-

Conditions were met during the year.

In terms of the Constitution, the grant can be used to build enabling infrastructure required to connect water resources over significant distances with bulk and reticulation systems.

Rural household infrastructure grant

Balance unspent at beginning of year	-	2 030 879
Current-year receipts	4 500 000	4 500 000
Conditions met - transferred to revenue	(4 500 000)	(4 499 100)
Other	-	(2 031 779)
	-	-

Conditions were met during the year.

In terms of the Constitution, this grant is used to improved access to basic water and sanitation in rural areas.

Municipal infastructure grant

Balance unspent at beginning of year	1 786 608	-
Current-year receipts	157 047 000	156 047 000
Conditions met - transferred to revenue	(158 833 608)	(154 260 392)
	-	**1 786 608**

Conditions were met during the year.

In terms of the Constitution, this grant is used to building the capacity of municipalities to implement sound institutional and governance systems required in terms of local government legislation.

	2016 R	2015 R

30. Government grants and subsidies (continued)

Integrated national electrification programme

Current-year receipts	20 000 000	11 300 000
Conditions met - transferred to revenue	(17 145 666)	(11 300 000)
	2 854 334	**-**

Conditions still to be met - remain liabilities (see note 19).

In terms of the Constitution, this grant is used to address the electrification backlog of occupied residential dwellings, clinics and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Notes to the Annual Financial Statements

	2016 R	2015 R

31. Employee related costs

Basic	196 990 845	154 015 185
Bonus	13 182 569	9 843 317
Medical aid - company contributions	10 838 782	9 395 532
Unemployment insurance fund contribution	2 337 549	1 611 860
Workmen's compensation	1 674 973	5 531 491
Skills development levy	2 672 922	2 503 011
Leave pay provision charge	6 250 941	(147 197)
Group life insurance	998 510	708 431
Defined contribution plans	27 948 324	24 626 142
Travel, motor car, accommodation, subsistence and other allowances	4 776 797	3 532 225
Overtime payments	26 715 936	26 862 688
Long-service awards	349 650	-
Acting allowances	3 113 910	571 178
Car allowance	6 450 718	5 059 365
Housing benefits and allowances	1 334 834	677 840
Telephone / cellphone allowance	1 236 021	656 500
Standby allowance	1 708 870	1 438 060
Bargaining council contribution	103 321	91 510
Long-term benefits - incentive scheme	521 642	(151 553)
	309 207 114	**246 825 585**

Remuneration of municipal manager

Annual remuneration	1 683 551	1 395 569
Travel allowance	140 000	422 474
Cellphone allowance	26 000	24 000
Contributions to UIF, medical and pension funds	1 933	-
	1 851 484	**1 842 043**

Mr TC Taetsane was a Municipal Manager for the period July 2014 to January 2016.

Adv MR Tsupa was a Municipal Manager for the period January 2016 to June 2016.

There were two Municipal Managers for the period ended 30 June 2016.The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of chief finance officer

Annual remuneration	1 074 039	1 185 282
Travel allowance	165 000	8 106
Cellphone allowance	18 000	18 000
Contributions to UIF, medical and pension funds	1 785	1 785
	1 258 824	**1 213 173**

Mr MA Mofokeng was a Chief Financial Officer for the period July 2015 to June 2016.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of the director of municipal infrastructure

Annual remuneration	70 430	887 701
Car allowance	16 650	222 908
Performance bonuses	1 500	18 000
Contributions to UIF, medical and pension funds	3 767	45 201
	92 347	**1 173 810**

Notes to the Annual Financial Statements

	2016 R	2015 R

31. Employee related costs (continued)

Mr HW Ungerer was a Director of Municipal Infrastructure for the period July 2015 to August 2015.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of the director of local economic development and tourism

	2016 R	2015 R
Annual remuneration	748 813	651 180
Travel allowance	216 604	320 764
Cellphone allowance	18 000	-
Contributions to UIF, medical and pension funds	148 380	172 362
	1 131 797	**1 144 306**

Mr FP Mothamaha was a Director of Local Economic Development and Tourism for the period July 2015 to June 2016.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of the director of public safety

	2016 R	2015 R
Annual remuneration	796 471	744 749
Car allowance	199 805	251 825
Performance bonuses	18 000	18 000
Contributions to UIF, medical and pension funds	178 560	167 751
	1 192 836	**1 182 325**

Mr MW Matjele was a Director of Public Safety for the period ended July 2015 to June 2016.

The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Procurements and infrastructure (planning, transport and environmental affairs)

	2016 R	2015 R
Annual remuneration	671 097	838 518
Travel allowance	113 408	188 919
Performance bonuses	15 000	18 000
Contributions to UIF, medical and pension funds	36 226	-
	835 731	**1 045 437**

Mr SB Mhlambi was a Director of Corporate Services for the period ended July 2015 to October 2015.

Ms MS Sekhonyana was a Director of Corporate Services for the period ended January 2016 to June 2016.

There were two Director of Corporate for the period ended 30 June 2016. The remuneration of the staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of the director of community services

	2016 R	2015 R
Annual remuneration	856 508	804 042
Travel allowance	173 313	176 263
Cellphone allowance	18 000	18 000
Contributions to UIF, medical and pension funds	144 099	134 602
	1 191 920	**1 132 907**

Mrs PP Selepe was a Director of Community services for the period July 2015 to June 2016.

Remuneration of the director of parks, sport, recreation, arts & culture

Notes to the Annual Financial Statements

	2016 R	2015 R
31. Employee related costs (continued)		
Annual remuneration	-	761 543
Car allowance	-	215 251
Performance bonuses	-	18 000
Contributions to UIF, medical and pension funds	-	23 066
	-	**1 017 860**

There was no Director of Parks, Sport, Recreation, Arts and Culture in full time or acting capacity.

Acting allowances

Key management posts are vacant the reason, the reason for not filling the post is due to the municipality experiencing cash flow.

32. Remuneration of councilors

	2016 R	2015 R
Executive Major	823 751	787 777
Mayoral Committee Members	6 827 521	4 651 547
Speaker	654 115	613 472
Councillors	13 952 465	17 337 012
	22 257 852	**23 389 808**

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

32. Remuneration of councilors (continued)

Councillors 30 June 2016	Annual remuneration	Travel, accommodation, subsistence and other allowances	Cellular phone allowance	Data allowance	Contributions to UIF, medical and pension funds	Total
Executive mayor - Tshabalala VW	687 523	-	33 090	3 600	99 537	823 750
Speaker - Nthedi AM	402 476	152 479	20 868	3 600	74 691	654 114
Chief whip - Thebe TR	391 220	143 086	20 868	3 600	55 989	614 763
Mayoral Committee Member - Lebesa MJ	376 194	143 086	20 868	3 600	71 015	614 763
Mayoral Committee Member - Mkhwanazi TI	590 296	-	20 868	3 600	-	614 764
Mayoral Committee Member - Mosia MM	376 194	143 086	20 868	3 600	71 015	614 763
Mayoral Committee Member - Nhlapo MA	391 220	143 086	20 868	3 600	55 989	614 763
Mayoral Committee Member - Mositi MC	376 194	143 086	20 868	3 600	71 015	614 763
Mayoral Committee Member - Mboso LA	494 255	24 596	20 868	3 600	71 445	614 764
Mayoral Committee Member - Mokubung ML	212 862	81 597	12 173	2 100	31 928	340 660
Mayoral Committee Member - Tsotetsi MJ	376 194	143 086	20 866	3 600	69 575	613 321
Mayoral Committee Member - Khoarai MI	391 220	143 086	20 868	3 600	55 989	614 763
Mayoral Committee Member - Mokoena JM	204 096	81 597	12 173	2 100	40 693	340 659
Mayoral Committee Member - Gamede EN	515 642	-	20 868	3 600	74 653	614 763
Councillors						
Mohlekwa TR	142 418	57 351	20 868	3 600	37 467	261 704
Mokoena DJ	157 444	57 351	20 868	3 600	22 441	261 704

32. Remuneration of councilors (continued)

Motloung MM	142 418	57 351	20 868	3 600	37 467	261 704
Mohoaladi ME	162 366	34 410	20 868	3 600	40 459	261 703
Lebesana PJ	142 418	57 351	20 868	3 600	37 467	261 704
Mokoena JM	76 157	24 712	8 695	1 500	15 930	126 994
Majake MI	157 444	57 351	20 868	3 600	22 441	261 704
Motaung SJ	157 444	57 351	20 868	3 600	22 441	261 704
Mopeli MS	207 314	-	20 868	3 600	29 922	261 704
Ramochela A	207 314	-	20 868	3 600	29 922	261 704
Tolofi ME	145 903	57 351	20 868	3 600	34 703	262 425
Moseme LA	157 444	57 351	20 868	3 600	22 442	261 705
Khambule MA	195 498	-	20 868	3 600	42 882	262 848
Mavuso TM	157 444	57 351	20 868	3 600	22 442	261 705
Motaung PM	192 567	-	20 868	3 600	44 990	262 025
Seobi MJ	157 444	57 351	20 868	3 600	22 442	261 705
Mosikidi TJ	207 314	-	20 868	3 600	29 922	261 704
Malaba TE	157 444	57 351	20 868	3 600	22 442	261 705
Lebesa MB	157 444	57 351	20 868	3 600	22 442	261 705
Moloi L	157 444	57 351	20 868	3 600	22 442	261 705
Letooane SG	179 885	57 351	20 868	3 600	-	261 704
Mokubung ML	82 418	24 712	8 695	1 500	9 670	126 995
Mokoena LE	157 444	57 351	20 868	3 600	22 442	261 705
Mahlambi TJ	157 444	57 351	20 868	3 600	22 442	261 705
Komako AM	157 444	57 351	20 868	3 600	22 442	261 705
Mofokeng K	207 314	-	20 868	3 600	29 922	261 704
Mahamuza LP	157 444	57 351	20 868	3 600	22 442	261 705
Ratsane J	207 314	-	20 868	3 600	29 922	261 704
Motaung ME	207 314	-	20 868	3 600	29 922	261 704
Hlatshwayo TF	207 314	-	20 868	3 600	29 922	261 704
Shabalala M	157 444	57 351	20 868	3 600	22 442	261 705
Sephula PE	207 314	-	20 868	3 600	29 922	261 704
Crockett M	142 418	57 351	20 868	3 600	37 468	261 705
Mojakisane NS	157 444	57 351	20 868	3 600	22 442	261 705
Mopeli N	157 444	57 351	20 868	3 600	22 442	261 705
Khoapha NA	207 314	-	20 868	3 600	29 922	261 704
Mpakathe MP	179 885	57 351	20 868	3 600	-	261 704
Ndlovu VM	149 493	54 148	19 129	16 193	20 669	259 632
Thakhuli ND	215 147	-	20 868	3 600	29 922	269 537
Letaone TT	207 314	-	20 868	3 600	29 922	261 704
Matjele MP	157 444	57 351	20 868	3 600	22 442	261 705
Mahlatsi A	177 392	34 410	20 868	3 600	25 434	261 704
Taaso MB	129 545	-	13 001	2 243	18 257	163 046
Salamu MS	207 314	-	20 868	3 600	29 922	261 704
Semela DG	237 236	-	20 868	3 600	-	261 704
Malinga DN	237 236	-	20 868	3 600	-	261 704
Ramohloki NI	237 236	-	20 868	3 600	-	261 704
Beukes PB	237 236	-	20 868	3 600	-	261 704
Moloi TD	157 444	57 351	20 868	3 600	22 442	261 705
Mofokeng MA	207 314	-	20 868	3 600	29 922	261 704
Mokotso GT	182 987	27 976	20 868	3 600	26 273	261 704
Sefatsa DE	237 236	-	20 868	3 600	-	261 704
Mhlambi MA	183 066	-	18 135	3 129	22 624	226 954
Tamane MJ	19 770	1 739	300	-	-	21 809
Nhlapo DJ	113 526	-	12 173	2 100	17 029	144 828
Mofokeng BD	96 497	19 583	12 173	2 100	14 525	144 878
Mosikidi MF	93 253	-	8 695	1 500	-	103 448
Mazibuko MR	48 654	-	5 217	900	7 298	62 069
	15 487 207	**2 997 336**	**1 394 859**	**251 365**	**2 127 085**	**22 257 852**

32. Remuneration of councilors (continued)

Councillors 30 June 2015	Annual remuneration	Travel, accommodation, subsistence and other allowances	Cellular phone allowance	Data allowance	Contributions to UIF, medical and pension funds	Total
Executive Mayor - Tshabalala VW	671 671	-	41 820	3 600	70 687	787 778
Speaker - Nthedi AM	373 554	144 277	20 868	3 600	71 176	613 475
Chief Whip - Thebe TR	364 906	134 603	20 868	3 600	52 671	576 648
Mayoral Committee Member - Gamede EN	594 097	-	20 868	3 600	24 328	642 893
Mayoral Committee Member - Mohlekwa TR	130 936	53 842	20 868	3 600	36 095	245 341
Mayoral Committee Member - Majake MI	145 962	53 842	20 868	3 600	21 069	245 341
Mayoral Committee Members - Mopeli N	145 962	53 842	20 868	3 600	21 069	245 341
Mayoral Committee Member - Mkhwanazi T	541 927	-	20 868	3 600	-	566 395
Mayoral Committee member - Mokoena MJ	349 880	134 603	20 868	3 600	67 647	576 598
Mayoral Committee member - Motaung SJ	145 962	53 842	20 868	3 600	21 069	245 341
Mayoral Committee Member - Mokubung ML	364 905	134 603	20 868	3 600	52 671	576 647
Mayoral Committe Member - Mositi MC	349 880	134 603	20 868	3 600	67 697	576 648
Mayoral Committee Member - Mosia MM	349 880	134 602	20 868	3 600	67 696	576 646
Councillors						
Beukes PB	239 292	-	22 607	3 900	-	265 799
Crockett SM	130 936	53 841	20 868	3 600	36 095	245 340
Hlatshwayo TF	186 966	8 798	20 868	3 600	26 944	247 176
Kambule MA	183 756	-	20 868	3 600	39 876	248 100
Lebesa MJ	349 880	134 602	20 868	3 600	67 697	576 647
Lebesana PJ	130 963	53 841	20 868	3 600	36 091	245 363

Notes to the Annual Financial Statements

	2016 R	2015 R

32. Remuneration of councilors (continued)

Letaoane TT	194 616	-	20 868	3 600	28 091	247 175
Letooane SG	185 451	36 246	20 868	3 600	-	246 165
Mahamuza LP	145 962	53 841	20 868	3 600	21 069	245 340
Mahlambi TJ	145 962	53 841	20 868	3 600	21 069	245 340
Mahlatsi A	165 423	32 304	20 868	3 600	23 878	246 073
Malinga DN	223 808	-	20 868	3 600	-	248 276
Matjele MP	145 962	53 841	20 868	3 600	21 069	245 340
Mavuso TM	145 962	53 841	20 868	3 600	21 068	245 339
Mazibuko MR	194 616	-	20 868	3 600	28 091	247 175
Mboso LA	486 541	-	20 868	3 600	70 227	581 236
Mofana MM	145 962	53 841	20 868	3 600	21 068	245 339
Mofokeng BD	165 423	32 304	20 868	3 600	23 877	246 072
Mofokeng K	194 616	-	20 868	3 600	28 091	247 175
Mofokeng MA	127 066	-	12 173	2 100	-	141 339
Mohlabi ML	28 688	10 997	1 739	300	4 303	46 027
Mohoaladi ME	150 397	32 304	20 868	3 600	38 903	246 072
Mojakisane NS	145 962	53 841	20 868	3 600	21 068	245 339
Moekoena DJ	145 962	53 841	20 868	3 600	21 068	245 339
Mokoena LE	145 962	53 841	20 868	3 600	21 068	245 339
Mokotso GT	266 450	100 027	20 868	3 600	39 141	430 086
Molaba TE	145 962	53 841	20 868	3 600	21 068	245 339
Moloi L	145 962	53 841	20 868	3 600	21 068	245 339
Moloi TD	160 403	-	13 912	2 400	-	176 715
Mopeli MS	194 616	-	20 868	3 600	28 091	247 175
Moseme LA	145 962	53 841	20 868	3 600	21 068	245 339
Mosikidi MF	223 808	-	20 868	3 600	-	248 276
Mosikili ST	109 113	44 515	17 390	3 000	29 941	203 959
Motaung ME	194 616	-	20 868	3 600	28 091	247 175
Motaung PM	180 069	-	20 868	3 600	42 910	247 447
Motloung PM	130 936	53 841	20 868	3 600	36 091	245 336
Mpakathe MP	176 654	45 043	20 868	3 600	-	246 165
Ndlovu VM	145 962	53 841	20 868	3 600	21 070	245 341
Nhlapo DJ	194 371	-	19 129	3 300	9 731	226 531
Nhlapo MA	364 906	134 602	20 868	3 600	52 671	576 647
Ramakarane TA	928 552	-	-	-	-	928 552
Ramaseli FW	94 092	-	3 478	600	-	98 170
Ramochela A	194 616	-	20 868	3 600	28 091	247 175
Ramohloki IN	282 710	-	20 868	3 600	-	307 178
Rantsane J	194 616	-	20 868	3 600	28 091	247 175
Salamu MS	194 616	-	20 868	3 600	28 091	247 175
Sefatsa DE	37 301	-	3 478	600	-	41 379
Sehlako KM	121 635	44 516	17 390	3 000	17 420	203 961
Semela DG	223 808	-	20 868	3 600	-	248 276
Khoapha NA	194 616	-	20 868	3 600	28 093	247 177
Khoarai MI	416 543	154 396	20 868	3 600	60 418	655 825
Kleinhans LM	22 950	8 798	3 478	600	3 444	39 270
Komako AM	145 962	53 841	20 868	3 600	21 069	245 340
Lebesa MB	145 962	53 841	20 868	3 600	21 069	245 340
Seobi MJ	145 962	53 841	20 868	3 600	21 069	245 340
Sephula PE	194 616	-	20 868	3 600	28 091	247 175
Shabalala M	149 787	49 442	20 868	3 600	21 641	245 338
Taaso BM	194 616	-	20 868	3 600	28 091	247 175
Thakhuli ND	194 616	-	20 868	3 600	28 091	247 175
Tolofi ME	135 102	53 841	20 868	3 600	32 491	245 902
Tsotsetsi MJ	349 880	134 602	20 868	3 600	67 697	576 647
Mosikidi TJ	194 616	-	20 868	3 600	28 092	247 176
	16 572 620	**3 059 134**	**1 471 278**	**250 200**	**2 036 576**	**23 389 808**

BM Taaso was a councillor for the period of 1 July 2015 to 29 February 2016.

	2016 R	2015 R

32. Remuneration of councilors (continued)

DJ Nhlapo was a councillor for the period 1 July 2015 to 31 January 2016.

BD Mofokeng was a councillor for the period 1 July 2015 to 31 January 2016.

MR Mazibuko was a councillor from the period 1 July 2015 to 30 September 2015.

JM Mokoena was a member of the mayoral committee for the period of July 2015 to January 2016. JM Mokoena was a councillor for the period of February 2016 to June 2016.

MF Mosikidi was a councillor from the period 1 July 2015 to 30 November 2015.

MJ Tamane was a councillor from the period 1 June 2016 to 30 June 2016.

ML Mokubung was a member of the mayoral committee for the period of July 2015 to January 2016. ML Mokubung was a councillor for the period of February 2016 to June 2016.

MA Mhlambi was a councillor for the period 1 September 2015 to 30 June 2016.

33. Community Expenditure

Capital expenditure acquired during the year	171 251 653	257 229 405

34. Depreciation and amortisation

Property, plant and equipment	-	186 120 561

35. Finance costs

Interest external	2 407 184	3 673 187
Unwinding of interest	2 071 332	2 662 328
	4 478 516	**6 335 515**

36. Debt impairment

Reversal of debt impairment provision	140 367 371	(162 700 092)
Bad debts written off	80 551 736	3 860
	220 919 107	**(162 696 232)**

37. Repairs and maintenance

Repairs and maintenance	162 882 817	449 597 299

38. Bulk purchases

Electricity	669 406 597	413 047 951
Water	44 816 907	39 419 241
	714 223 504	**452 467 192**

Distribution losses incurred on water and electricity:

Notes to the Annual Financial Statements

	2016 R	2015 R

38. Bulk purchases (continued)

2016	Total sales (units)	Less total purchases (units)	% loss on purchases	Rand value of loss at purchase price
Electricity	237 956 518	486 465 430	51 %	248 508 912
Water	8 045 361	20 447 586	61 %	12 402 225
	246 001 879	**506 913 016**		**260 911 137**

2015	Total sales (units)	Less total purchases (units)	% loss on purchases	Rand value of loss at purchase price
Electricity	306 177 374	1 002 403 789	69 %	696 226 415
Water	12 609 936	20 931 635	66 %	8 321 699
	318 787 310	**1 023 335 424**		**704 548 114**

39. Contracted services

	2016 R	2015 R
Information Technology Services	1 790 432	1 962 337
Fleet Services	2 157 779	-
Specialist Services	29 349 190	21 815 344
Other Contractors	28 473 925	36 234 867
	61 771 326	**60 012 548**

40. Grants and subsidies paid

Other subsidies	2016 R	2015 R
DWA subsidy to Maluti-a-Phofung (SOC) Ltd	-	8 500 000
Equitable share to Maluti-a-Phofung Water (SOC) Ltd	95 000 000	91 722 159
	95 000 000	**100 222 159**

Notes to the Annual Financial Statements

	2016 R	2015 R

41. General expenses

Advertising	4 715 618	1 029 605
Auditors remuneration	6 749 266	5 629 657
Bank charges	2 753 109	2 324 495
Billing charges	21 104 973	3 917 231
Capacity building	-	396 000
Cleaning	-	812 832
Consulting and professional fees	4 028 064	4 795 580
Consumables	3 455 943	951 050
Debt collection	2 040 221	-
Delivery expenses	4 527 674	-
Entertainment	63 066 739	13 338 464
Flowers	-	2 074 585
Fuel and oil	5 564 310	8 073 797
General workers seasonal	2 294 850	1 339 074
IT expenses	7 410	11 619 465
Indigent subsidy contribution	60 341 570	8 769 728
Insurance	30 412 894	51 444 127
Levies	4 203 335	905 808
MSIG expenditure	930 000	934 000
Magazines, books and periodicals	-	21 517
Mayoral fund	-	524 895
Motor vehicle expenses	196 747	206 994
Other expenses	4 376 164	412 879
Penalties and interest	20 645 084	8 431 913
Postage and courier	3 557 633	2 522 978
Promotions	3 820 674	633 660
Promotions and sponsorships	4 000 000	-
Protective clothing	3 010 711	713 551
Rehbilitation of landfill site	-	174 700
Refuse	4 409 668	3 773 697
Security (Guarding of municipal property)	5 984 727	-
Staff welfare	1 425 035	5 305 555
Subscriptions and membership fees	258 593	220 417
Telephone and fax	3 098 384	3 004 070
Training	10 301 716	2 455 258
Travel - local	410 653	30 960
Venue expenses	-	85 200
Veterinary department	2 257 000	2 759 000
	283 948 765	**149 632 742**

IT expenses: The municipality's IT department is outsourced in the current financial year.

42. Auditors' remuneration

Fees	6 749 266	5 629 657

Notes to the Annual Financial Statements

	2016 R	2015 R

43. Cash generated from operations

Deficit	(779 027 250)	(230 065 827)
Adjustments for:		
Depreciation and amortisation	-	186 120 561
Debt impairment	220 919 107	(162 696 232)
Movements in retirement benefit assets and liabilities	2 525 000	(1 582 000)
Movements in provisions	(427 082)	1 994 873
Write off of assests	2 071 332	2 662 328
Changes in working capital:		
Inventories	144 327	189 876 637
Receivables from exchange transactions	(1 189 637)	(424 605)
Consumer debtors	(51 512 941)	(190 965 635)
Receivables from non-exchange transactions	102 683 541	(174 177 222)
Payables from exchange transactions	618 229 661	485 075 411
VAT	(90 645 558)	(59 870 443)
Unspent conditional grants and receipts	1 067 726	(694 271)
Consumer deposits	11 441	(11 560)
	24 849 667	**45 242 015**

44. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	258 868 542	580 579 740
Total capital commitments		
Already contracted for but not provided for	258 868 542	580 579 740

Authorised operational expenditure

Already contracted for but not provided for		
• Operating activities	52 357 044	-
Total operational commitments		
Already contracted for but not provided for	52 357 044	-

Total commitments

Total commitments		
Authorised capital expenditure	258 868 542	580 579 740
Authorised operational expenditure	52 357 044	-
	311 225 586	**580 579 740**

This committed expenditure relates to property and other operating activities and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

45. Contingencies

Detail of contingencies:	Claims of damages	Claims for services rendered	Claims for arrears payment	Labour court cases	Total
J Mosese	10 000	-	-	-	10 000
SW Phuthi	10 000	-	-	-	10 000
TE Tsoeu	12 000	-	-	-	12 000
Lehloma Samuel Molefe	17 139	-	-	-	17 139
P Mabeleng and S Wanyane	2 000 040	-	-	-	2 000 040
Cearsor Malefatsane Maqelepo	200 000	-	-	-	200 000
Phokana Tolong / MAP	13 007	-	-	-	13 007
MAP/ Occupant 1224 Bluegumbosch	10 000	-	-	-	10 000
Steve Vorster / MAP	23 000	-	-	-	23 000
Occupation 1155 Bluegumsch	10 000	-	-	-	10 000
MAP/ Manana Francina Mohomane	10 000	-	-	-	10 000
D A and M Mokhatla	142 316	-	-	-	142 316
D A and M Mokhatla	125 000	-	-	-	125 000
MAP/ Occupation of 617 K Clubview Lephoto KM	10 000	-	-	-	10 000
MAP/Illegal Occupiers Farm Uitkoms	100 000	-	-	-	100 000
MAP/ PB Sgubudu, Clubview Phuthadithaba: Illegal structures	10 000	-	-	-	10 000
MAP/ TE Zondo - ERF 408 Clubview Phuthadithaba: Illegal structures	10 000	-	-	-	10 000
MAP/ P Ngcongwane - ERF 10066 A, Phuthadithaba: Illegal structures	10 000	-	-	-	10 000
Transnet Soc Limited t/a Transnet Pipelines	17 675 427	-	-	-	17 675 427
Bibi Cash and Carry Supermarket	27 386 219	-	-	-	27 386 219
Bibi Cash and Carry (PTY) LTD//MAP	130 000	-	-	-	130 000
TE Tsoeu	-	41 949	-	-	41 949
MS Tsoeu	-	50 000	-	-	50 000
Diagoeregoere Business Project Mal198/1	-	16 000 000	-	-	16 000 000
Lina Molaba/ JM Molaba	-	10 000	-	-	10 000
MAP/Eskom	-	143 047	-	-	143 047
Maluti Glass and Aluminium Wholesalers CC	-	7 212	-	-	7 212
Water and Sanitation Services South Africa (PTY) LTD/MAP	-	1 131 999	-	-	1 131 999
Ekosto 1038 Investments	-	-	22 648	-	22 648
BZL petroleum	-	-	9 406	-	9 406
PF France N.O and Barras N.O	-	-	496 443	-	496 443
MAP/Illegal Occupiers Farm Uitkoms	-	-	60 000	-	60 000
Tjhabalala R.J//MAP	-	-	-	250 000	250 000
L Greyling No	-	-	-	1 486 139	1 486 139

	2016 R	2015 R

45. Contingencies (continued)

H Langeveldt	-	-	-	2 291 981	2 291 981
SAMWU obo Selepe H.T and 13 Others	-	-	-	50 000	50 000
Tshidi Tala Evans//MAP	-	-	-	50 000	50 000
Rens Thozamile Gladstone//MAP	-	-	-	55 000	55 000
SAMWU obo Tsotsotso T.V//MAP	-	-	-	50 000	50 000
SAMWU obo Tsotetsi and 5 Others//MAP	-	-	-	60 000	60 000
SAMWU obo Lebuso H.H and 12 Others//MAP	-	-	-	55 000	55 000
SAMWU obo M.N Sekosana//MAP	-	-	-	60 000	60 000
Thulisile Mlangeni Doris//MAP	-	-	-	50 000	50 000
Mahlasinyane Daniel Mosia//MAP	-	-	-	50 000	50 000
Telkom SA	-	-	-	1	1
T E Tsoeu	-	-	-	1	1
Mashee	-	-	-	200 000	200 000
Mohapi	-	-	-	300 000	300 000
Rons and others	-	-	-	550 000	550 000
Malefane	-	-	-	100 000	100 000
Rampa	-	-	-	120 000	120 000
S.A Human Rights Commission	-	-	-	30 000	30 000
MAP//Mpho Nicollas Sekosana	-	-	-	15 000	15 000
MAP//Bikie Jacob Makhubo	-	-	-	20 000	20 000
SAMWU obo Madlenkosi Dlamini//MAP	-	-	-	164 672	164 672
Motshoeneng Dikotsi A and 13 Others//MAP	-	-	-	1	1
MC Mositi/ML Mosia	-	-	-	50 000	50 000
	47 914 148	**17 384 207**	**588 497**	**6 057 795**	**71 944 647**

Summary of claims:

	2016 R	2015 R
Claims for damages	47 914 149	33 983 899
Claims of services rendered	17 384 207	16 121 949
Claims on arrear payments	588 496	656 442
Labour matters	6 057 795	2 003 558 112
	71 944 647	**2 054 320 402**

Contingent assets

Detail of contingencies:	**Claims of damages**	**Claims for services rendered**	**Claims for arrears payment**	**Labour court cases**	**Total**
PF France N.O and Barras N.O	-	-	(981 821)	-	(981 821)
Diagoeregoere: Claim by MAP for overpayment	-	-	(304 106)	-	(304 106)
MAP/Rural maintenance	-	(8 700 000 000)	-	-	(8 700 000 000)
MAP/Rural maintenance	-	(20 000 000)	-	-	(20 000 000)
	-	**(8 720 000 000)**	**(1 285 927)**	**-**	**(8 721 285 927)**

Notes to the Annual Financial Statements

	2016 R	2015 R

46. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report page 10
Controlled entities	Maluti-a-Phofung Water (SOC) Ltd - Refer to note
	S57 managers - Note 29 13
Members of key management	Councillor - Note 30

Related party balances

	2016 R	2015 R
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Maluti-a-Phofung Water (SOC) Ltd	(90 786 643)	(87 270 400)
Maluti-a-Phofung Water (SOC) Ltd - insurance	8 039 590	8 039 590
Maluti-a-Phofung Water (SOC) Ltd - municipal services	10 714 984	10 714 984

Related party transactions

	2016 R	2015 R
Total service charges		
Maluti-a-Phofung Water (SOC) Ltd - water and sewer	48 041 468	18 237 371
Maluti-a-Phofung Water (SOC) Ltd - rates and taxes	-	(8 039 590)
Equitable share and DWA grant payment		
Maluti-a-Phofung Water (SOC) Ltd	95 000 000	88 500 000
Compensation to accounting officer and other key management		
Defined contribution plans	76 125	91 510

47. Prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Statement of financial performance **Revenue**	Balance as previously reported	Prior period error	Total
Service charges	395 516 256	146 873 918	542 390 174
Recoveries	833 609	-	833 609
Rental income	850 030	-	850 030
Interest received - trading	16 771 406	(356 538)	16 414 868
Interest received - investments	1 115 593	-	1 115 593
Other income	446 589 827	-	446 589 827
Fines	879 568	-	879 568
Property rates	120 001 428	-	120 001 428
Government grants and subsidies	609 662 809	-	609 662 809
	1 592 220 526	**146 517 380**	**1 738 737 906**
Expenses			
Employee related cost	(255 372 419)	(1 205 027)	(256 577 446)
Remuneration of councilors	(23 289 808)	-	(23 289 808)
Depreciation and amortisation	(186 120 561)	-	(186 120 561)
Grant and subsidies paid	(100 222 159)	-	(100 222 159)
Finance cost	(4 468 188)	795 001	(3 673 187)
Debt impairment	162 696 232	-	162 696 232
Repairs and maintenance	(446 129 234)	(3 468 065)	(449 597 299)
Bulk purchases	(483 308 888)	30 841 696	(452 467 192)
Contracted services	(58 034 449)	(1 978 099)	(60 012 548)
General expenses	(203 946 187)	54 313 445	(149 632 742)
Community project expenditure	(249 764 845)	(7 464 560)	(257 229 405)
	(1 847 960 506)	**71 834 391**	**(1 776 126 115)**
Operating (deficit) / surplus	(255 839 980)	153 688 088	(102 151 892)
Inventories losses/write-downs	(189 915 292)	-	(189 915 292)
	(445 755 272)	**153 688 088**	**(292 067 184)**

Statement of financial position **Current assets**	Balance as previously reported	Prior period error	Total
Inventory	2 339 758	(62 395)	2 277 363
Receivables from exchange transactions	314 167 274	146 873 918	461 041 192
VAT receivable	47 999 856	(4 317 837)	43 682 019
Receivables from non-exchange transactions	177 071 362	-	177 071 362
Cash and cash equivalents	6 728 773	-	6 728 773
Short term portion of long term loan	1 213 652	-	1 213 652
	549 520 675	**142 493 686**	**692 014 361**

Notes to the Annual Financial Statements

47. Prior period errors (continued)

Non-current assets			
Investment property	42 163 277	-	42 163 277
Property, plant and equipment	2 993 040 188	-	2 993 040 188
Intangible assets	1 478	-	1 478
Heritage assets	4	-	4
Other financial assets	786 642	(356 538)	430 104
Long term receivable	361 409	-	361 409
	3 036 352 998	**(356 538)**	**3 035 996 460**
Current liabilities			
Other financial liability	3 617 406	-	3 617 406
Payables from exchange transactions	1 127 647 242	(75 419 623)	1 052 227 619
Consumer deposits	11 721 031	-	11 721 031
Employee benefit obligations	4 227 000	-	4 227 000
Unspent conditional grants	1 786 608	-	1 786 608
	1 148 999 287	**(75 419 623)**	**1 073 579 664**
Non-current liabilities			
Other liabilities	9 872 082	(795 001)	9 077 081
Employee benefit obligations	24 803 000	-	24 803 000
Provisions	19 307 350	-	19 307 350
	53 982 432	**(795 001)**	**53 187 431**

1. Reversal of prior year interest provision

June 2015 DBSA payment was only paid in July 2015 (following financial year), the interest provision raised in the previous financial year had to be reversed.

Reversal of prior year interest provision		
Finance cost [SoFPer]	-	795 001
Other financial liabilities [SoFPos]	-	(795 001)
	-	**-**

2. Ex.258 No provision for outstanding payments to the Compensation Commissioner.

No provision for outstanding payments to the Compensation Commissioner - Prior year exception addressed in current year.

Ex.258 No provision for outstanding payments to the Compensation Commissioner		
General expenses (SoFPer)	-	438 630
General expenses (SoFPer)	-	4 386 307
Payables from exchange transactions (SoFPos)	-	(4 824 937)
	-	**-**

3. Ex.168 Income Fund Ltd) was overbilled in the 2013/2014 financial year and the reversal took place in the current year.

Account number 737513 (Synergy) - Income Fund Ltd) was overbilled in the 2013/2014 financial year and the reversal took place in the current year. The customer was overbilled by R161 446 399,20 and this amount was set off against electricity revenue in the current financial year.

47. Prior period errors (continued)

Ex.168 Income Fund Ltd) was overbilled in the 2013/2014 financial year and the reversal took place in the current year.		
Service charges (SoFPer)	-	(161 446 399)
Receivable from exchange transaction (SoFPos)	-	161 446 399
	-	-

4.Reversal of prior year accrual - Bulk expenditure

Reversal of prior year accruals.

Reversal of prior year accrual - Bulk electricity		
Bulk purchases (SoFPer)	-	(30 841 696)
Finance cost (SoFPer)	-	(4 922 421)
VAT (SoFPos)	-	(4 317 837)
Trade creditors (SoFPos)	-	40 081 954
	-	-

5. Ex.270 Creditors at year end not complete

Additional provision for accrauls and recognised the related expenditure, as the transactions relate to the 2014/2015 financial year, but was never recognised.

Statement of financial position		
Employee related cost (SoFPer)	-	1 205 027
Community project expenditure (SoFPer)	-	7 464 560
Repairs and maintenance (SoFPer)	-	3 468 065
Contracted services (SoFPer)	-	1 978 099
General expenses (SoFPer)	-	10 385 327
Inventories (SoFPos)	-	107 769
Trade payables (SoFPos)	-	(24 608 847)
	-	-

6.Share price was calculated using the incorrect share price

Share price was calculated using the incorrect share price. = 5926*6175c

Statement of financial position		
Interest received (SoFPer)	-	356 538
Other financial asset (SoFPos)	-	(356 538)
	-	-

7. Reversal of journal (A1516-60) transaction should not have passed the main store vote number.

Reversal of journal (A1516-60) transaction should not have passed the main store vote number.

Reversal of journal (A1516-60) transaction should not have passed the main store vote number.		
Payables (SoFPos)	-	107 769
Inventories (SoFPos)	-	(107 769)
	-	-

8. These expense were direct payment and not stores ordered items.

47. Prior period errors (continued)

These expense were direct payment and not stores ordered items. Therefore stores can't issue it.

Statement of financial position		
General expenses (SoFPer)	-	62 395
Inventories (SoFPos)	-	(62 395)
	-	-

9.Ex.83 & 226 Correction of prior year 15 day provision

Correction of prior year 15 day provision.

Statement of financial position		
Service charges (SoFPer)	-	14 572 481
Receivable from exchange transaction (SoFPos)	-	(14 572 481)
	-	-

10. Prior year bulk purchase overstated

Prior year bulk purchase overstated, instead of taking only June 2016 interest into account the whole years interest was taken into account.

Statement of financial position		
General expense (SoFPer)	-	(64 663 683)
Payables (SoFPos)	-	64 663 683
	-	-

48. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (cash flow interest rate risk), credit risk and liquidity risk.

This note presents information about the municipality's exposure to each of the above risks and the municipality's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout the annual financial statements.

48. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	2 750 272	7 123 250	-	-
Payables from exchange transactions	1 729 211 833	-	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	3 617 406	2 773 566	7 098 516	-
Payables from exchange transactions	1 116 891 299	-	-	-

Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Cash and cash equivalent	28 379 801	6 728 773
Receivables from exchange transactions	8 051 199	6 861 562
Receivables from non-exchange transactions	74 939 376	177 071 362
Consumer debtors	344 420 889	461 041 191

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

49. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of R 1 809 052 179 and that the municipality's total liabilities exceed its assets by R 1 809 052 179.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. Government did not announce that it intends to cease funding to Maluti-a-Phofung.

Notes to the Annual Financial Statements

Figures in Rand

50. Events after the reporting date

The accounting officer is not aware of any matter or event arising since the end of the reporting period and the date of this report, which will significantly affect the financial position and results of the municipality's operations.

51. Unauthorised expenditure

Opening balance	1 529 196 023	571 320 555
Financial services	255 393 526	48 365 462
Municipal infrastructure	-	909 106 518
Public safety and transport	-	403 488
Legislative authority	6 555 108	-
	1 791 144 657	**1 529 196 023**

52. Fruitless and wasteful expenditure

Opening balance	44 560 921	31 557 459
Incurred in the current year	20 349 973	13 003 462
	64 910 894	**44 560 921**

53. Irregular expenditure

Opening balance	97 646 574	66 884 679
Add: Irregular Expenditure - current year	19 962 329	30 761 895
Less: Amounts condoned in the current year	(79 545 512)	-
	38 063 391	**97 646 574**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Details of irregular expenditure is available on request. All irregular expenditure pertains to the supply chain management policy of the municipality not being follow. For details on the irregular report for the financial year 2015/2016, For more details refer to Appendix H.	Irregular expenditure is currently under investigation.	39 947 676

54. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3 410 854	3 237 560
Amount paid - current year	(3 237 560)	(1 253 069)
	173 294	**1 984 491**

Contributions to SALGA mainly comprise of annual membership fees paid to SALGA.

Audit fees

Opening balance	(2 661 597)	4 347 856
Current year subscription / fee	6 228 922	5 981 097
Amount paid - current year	(8 732 736)	(7 524 646)
Amount paid - previous years	4 864 918	(5 465 904)
	(300 493)	**(2 661 597)**

Notes to the Annual Financial Statements

Figures in Rand

54. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	3 387 002	2 910 292
Current year subscription / fee	46 452 070	38 477 973
Amount paid - current year	(39 072 498)	(35 090 971)
Amount paid - previous years	(3 013 372)	(2 910 292)
	7 753 202	**3 387 002**

Pension and medical aid deductions

Opening balance	4 911 633	3 980 814
Current year subscription / fee	58 779 207	56 080 521
Amount paid - current year	(53 644 680)	(51 168 888)
Amount paid - previous years	(4 911 633)	(3 980 814)
	5 134 527	**4 911 633**

54. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mokoena LE	-	6 600	6 600
Ntamane VM	-	11 694	11 694
Motaung PM	-	17 954	17 954
Ntamane VM	-	3 504	3 504
Mohlekwa TR	-	116	116
Mokoena LE	207	2 451	2 658
Motaung PM	-	294	294
Mositi MC	1 152	6 948	8 100
Lebesana PJ	2 026	2 297	4 323
Mosikidi TJ	868	1 482	2 350
Motinyane T	563	4 867	5 430
Khoapa NA	-	434	434
Mpakathe TS	1 745	49 712	51 457
Thebe PI	203	451	654
Mboso LA	3 146	4 275	7 421
Letooane SG	390	1 955	2 345
Komako A	632	52 536	53 168
Mahlambi N	4 850	21 228	26 078
Ntamane VM	3 008	119 692	122 700
	18 790	**308 490**	**327 280**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Gamede BF	-	1 308	1 308
Khoapa NA	913	-	913
Komako A	7 163	43 477	50 640
Letooane SG	521	1 412	1 933
Mahlambi N	2 545	14 108	16 653
Mohlekwa TR	408	-	408
Motaung PM	769	2 074	2 843
Mosikidi TJ	1 764	3 992	5 756
Mositi MC	127	20 954	21 081
Motinyane T	590	6 742	7 332
Mpakhathe TS	874	43 595	44 469
Thebe PI	338	-	338
	16 012	**137 662**	**153 674**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2016	Highest outstanding amount	Aging (in days)
Mokoena LE	6 599	90
Ntamane VM	11 694	90
Motaung PM	17 954	90
Ntamane VM	3 504	90
Mohlekwa TR	116	90

54. Additional disclosure in terms of Municipal Finance Management Act (continued)

Mokoena LE	2 658	90
Motaung PM	294	90
Mositi MC	8 100	90
Lebesana PJ	4 324	90
Mosikidi TJ	2 350	90
Motinyane T	5 431	90
Khoapa NA	434	90
Mpakathe TS	51 457	90
Thebe PI	655	90
Mboso LA	7 420	90
Letooane SG	2 345	90
Komako A	53 168	90
Mahlambi N	26 078	90
Ntamane VM	122 700	90
	327 281	**1 710**

30 June 2015	Highest outstanding amount	Aging (in days)
Gamede BF	1 308	90
Khoapa NA	913	30
Komako A	42 477	90
Letooane SG	1 412	90
Mahlambi N	14 108	90
Mohlekwa TR	408	30
Motaung PM	2 074	90
Mosikidi TJ	3 992	90
Mositi MC	20 954	90
Motinyane T	6 742	90
Mpakhathe TS	43 595	90
Thebe PI	338	30
	138 321	**900**

55. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	9 873 522	12 694 487

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

56. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

	-	-

Classification of deviation	Number	Rand value
Emergency	21	22 946 584
Impractical / impossible to follow procurement process	6	776 249
Sole provider	4	741 329
	31	**24 464 162**

57. Inventories losses/write-downs

RDP houses	-	(189 915 292)

Management distributed RDP houses to the beneficiaries, therefore inventory of R189 915 292 was written off.

58. Budget differences

Material differences between budget and actual amounts

Service charges: There are still a lot of illegal connections and tempering on electricity meters. The municipality has however appointed two service providers to deal with the physical verification of meters around MAP both conventional and prepaid meters.

Rental income: Rental income depends on the demand from the community to rent out municipal facilities.

Interest received: Interest received on outstanding debtor's arrears was budgeted separately from the interest received on investment at 25 000 000. The difference will be due to a month that was not billed interest because of late billing which is covered in our credit control policy. Interest received on investment depends on the municipal cash flow, the more the funds the more possibilities of investing but if there is no money there will be nothing to invest.

Traffic fines: Traffic fines are not negotiated at the courts of law but paid directly into the municipality bank account.

Property rates: Property rates are properties still under municipal name which in the process of being transferred to the rightful owners and the ongoing property verification between the municipality and public works.

Government grants and subsidies: The municipality was allocated a lot of grants but was adjusted with the adjustment DORA. Also see 43.21.3. MAP water equitable share allocation was reduced, the budget was adjusted due to cashflow problems.

Employee related costs: Budgeted vacant position that were not filled during the financial year in question, retirements and deaths occurred.

Community projects expenditure: Some projects were budgeted under own source, they could not be implemented due to cash flow problems.

Finance costs: Interest was paid in July because of cash flow however it should have actually be paid in June 2016.

Bad debts written off: Bad debts written off includes indigent book written off and incentives offered to consumers.

Repairs and maintenance: Not a lot of municipal assets needed to be repaired and it will also depend on the municipal cash flow.

Bulk purchases: Bulk purchases depends on the municipal cash flow and financials are based on accruals so the municipality tried to pay according to the repayment plan which was around R194 million for the financial year 2015/ 2016.

Contracted services: Contracted services depends on the cash flow of the municipality. The compilation of the creditor's age analysis will help the municipality in prioritising when funds are available.

Transfers and subsidies: Transfer and subsidies includes payments to map water and free basic services to registered indigent, the difference is contributed to the three months that free basic electricity couldn't be provided for wrong meters provided by applicants during registrations so a service provider had to trace and validate meters.

General expenditure: General expenditure includes many items like bursaries, specials programmes which payments to small projects contracts like Epwps, food for waste ect. was not budgeted for.